

**MEMORANDUM FOR MEMBERS OF THE GOVERNMENT REFORM
SUBCOMMITTEE ON REGULATORY AFFAIRS**

FROM: Candice S. Miller, Chairman /s/

DATE: May 17, 2005

SUBJECT: Briefing for May 25, 2005 Hearing, "Less is More: The Increasing Burden of Taxpayer Paperwork"

On Wednesday, May 25, 2005, at 2:00 p.m., in Room 2154 Rayburn House Office Building, the Government Reform Subcommittee on Regulatory Affairs will hold a hearing to consider ongoing oversight of the Internal Revenue Service in its taxpayer paperwork burden reduction efforts, particularly in relation to the provisions required under the Paperwork Reduction Act of 1980 (and as amended).

Paperwork Reduction Efforts

Like paying taxes, paperwork is an inevitable part of an American adult's responsibilities. Each year federal agencies collect an assortment of information from individuals in order to complete their agency's missions. Although such information collection may be beneficial for the agencies, it can have the unintended consequence of burdening individuals and businesses. Recent estimates show that government-wide paperwork burden hovers at 8 billion hours.

Paperwork burden is not a new phenomenon. The necessity to reduce government burden has long been recognized by Congress. In 1942, the Federal Reports Act established a review process where the Bureau of the Budget (currently the Office of Management and Budget (OMB)) decided whether information collection by a federal agency was necessary for the agency's proper performance. However, nearly 35 years later, Congress realized that the paperwork burden was consistently increasing and, as a result, the Commission on Federal Paperwork was created in 1977.

Due in large part to the Commission on Federal Paperwork's findings, Congress enacted the Paperwork Reduction Act of 1980 (PRA). The PRA continued to require all federal agency information collection activities to be subject to OMB review, but it articulated three chief purposes with regard to information collection: (1) to minimize federal paperwork burden for individuals, small businesses, state and local governments, and other persons; (2) to minimize the cost to the federal government of collecting, maintaining, using, and disseminating information; and (3) to maximize the usefulness of information collected by the federal government. To carry out this new mission, the PRA established the Office of Information and Regulatory Affairs within OMB. Commonly referred to as OIRA, this office is solely tasked with the oversight responsibilities of management of federal information resources, including paperwork reduction. Agencies must receive OIRA approval for each information collection request and those approvals must be renewed at least every three years. Alternatively, OIRA has the ability to disapprove any collection of information it believes is inconsistent with the PRA.

Though the PRA was a revolutionary piece of legislation in fighting the war on paperwork burden, statistics showed that burden was not decreasing any more than it had in previous years. As a result, Congress added minor amendments to the PRA when reauthorizing it in 1986. Additionally, Congress inserted more sweeping provisions during the reauthorization in 1995. The 1995 Amendments included the creation of a senior official position at each agency (currently referred to as the Chief Information Officer) to review agency information collections before submission to OMB. These amendments also mandated changes in federal paperwork reduction requirements. For example, the amendments required OIRA to set a goal of at least a 10% reduction in government-wide paperwork burden for fiscal years 1996 and 1997, a 5% reduction in each of the next 4 fiscal years, and annual paperwork goals thereafter that reduced burden to the “maximum practicable opportunity.”

Such stringent guidelines still did not reduce paperwork burden. By the end of fiscal year 2001, government-wide burden was estimated to be 7.6 billion hours, a significant contrast to the mandated 35% reduction goal in the 1995 Amendments which would have placed burden at 4.5 billion hours. Current estimates now set burden levels at about 8 billion hours. Interestingly enough, only one agency is accountable for 80% of this figure – the Internal Revenue Service (IRS).

Taxpayer Paperwork Burden: Role of the IRS

Information collected as part of the tax system is the principal ingredient in an overstuffed pot of paperwork burden imposed by the Federal government. Present estimates state that nearly 6.5 billion hours, or 80%, of government-wide paperwork burden is a result of the IRS. Even though the IRS accounts for 80% of the burden, it does not account for 80% of information collections. In fact, current estimates show that out of nearly 8,000 information collections government-wide, IRS collections only account for approximately 800, which is roughly 10% of the total. Of these 800 forms, only 10 are culpable for producing about 80% of the IRS burden. The basic tax returns – Form 1040 and its associated schedules – measure at 1.6 billion hours, or 24% of all IRS burden. Therefore, IRS paperwork burden is very concentrated.

In recent years, the IRS has made good-faith efforts in reducing paperwork burden. Most notably, in 2002, the IRS Commissioner established the Office of Taxpayer Burden Reduction. Among its accomplishments include certain threshold increases in an attempt to reduce burden. For example, by simply increasing the threshold of business expense on Form 1040, Schedule C-EZ from \$2,500 to \$5,000, the IRS was able to reduce taxpayer burden for 500,000 people by 5 million hours. Additionally, by increasing the threshold of Form 1040, Schedule B, the IRS was able to reduce the burden for 15 million people by 20.7 million hours.

Among the IRS's other accomplishments include strides made in allowing individuals and small businesses to interface with the government electronically. For example, approximately 65% of federal individual tax returns have been filed electronically this year, business owners can request employee identification numbers on-line, K-1 forms can be completed electronically, and most customer questions can now be answered with the new “E-Services” link on the IRS website. With E-government initiatives high on the President's Management Agenda, the IRS is apparently heeding the call of citizen-oriented reform.

Although these administrative and E-government accomplishments are noteworthy, unresolved issues still remain. Such issues include simplifying the extension to the filing process, the inability of complicated tax forms to be submitted electronically, costly software development, and fraud protection.

The IRS often insists that the enormous amount of paperwork burden attributed to it is a result of a complex Internal Revenue Code. The agency contends that but for a moratorium on legislative action to the tax code, it may not be able to reduce the amount of paperwork burden as envisioned by the PRA. However, even though a statute may require the IRS to take certain action, the agency does have discretion regarding whether paperwork requirements need to be imposed, and if so, the manner and frequency with which the information is collected.

The strides taken by the IRS are a step in the right direction, but piecemeal approaches to a 6.5 billion hour goliath is inadequate for the resources available. Innovative and effective solutions could be found in simplifying forms, using plain English in instructions, lengthening reporting periods, and further increasing threshold requirements. Such administrative proposals would reduce volumes of paperwork, not to mention increase compliance, and such simple changes would greatly benefit the small business community, particularly those small business owners who may not be tech-savvy.

Most notably, the 1995 Amendments to the PRA mandated an incremental reduction in burden each year for six years and a maximum practicable reduction in the years thereafter. As evidenced by the incremental increase instead of decrease over the past ten years, the IRS efforts at burden reduction fail to satisfy the goals envisioned by the PRA.

Witnesses

The invited witnesses for the May 25, 2005 hearing are: Mr. Mark W. Everson, Commissioner, Internal Revenue Service and former Deputy Director for Management, Office of Management and Budget; Dr. John D. Graham, Administrator, Office of Information and Regulatory Affairs, Office of Management and Budget; Mr. Leonard Steinberg, The Steinberg Group and former member of the Taxpayer Advocacy Panel, on behalf of the Small Business & Entrepreneurship Council; Keith Hall, Hall & Hughes, PLLC, on behalf of the National Association for the Self-Employed; and Larry Gray, Alferman, Gray & Co., on behalf of the National Association of Tax Preparers.